

**CITY OF BATTLE CREEK
KELLOGG ARENA FUND**

Battle Creek, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

CITY OF BATTLE CREEK KELLOGG ARENA FUND

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INDEPENDENT AUDITORS' REPORT

December 10, 2008

To the Honorable Mayor and
Members of the City Commission of the
City of Battle Creek, Michigan and
Management of the Kellogg Arena Fund
Battle Creek, Michigan

We have audited the accompanying financial statements of the ***KELLOGG ARENA FUND, a special revenue fund of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Kellogg Arena Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Kellogg Arena Fund and do not purport to, and do not present fairly the financial position of the City of Battle Creek, Michigan as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kellogg Arena Fund as of June 30, 2008, and the changes in financial position thereof and the budgetary comparison of the fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Kellogg Arena Fund has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Kellogg Arena Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

FINANCIAL STATEMENTS

KELLOGG ARENA FUND

Balance Sheet

June 30, 2008

ASSETS

Assets

Cash and cash equivalents	\$ 220,021
Accounts receivable	187,198
Inventories	15,933
Prepaid items	<u>19,511</u>

TOTAL ASSETS

\$ 442,663

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable and accrued liabilities	\$ 69,952
Deferred revenue	<u>12,300</u>
Total liabilities	<u>82,252</u>

Fund balance

Reserved:	
Reserved for inventories	15,933
Reserved for prepaid items	19,511
Unreserved, undesignated	<u>324,967</u>
Total fund balance	<u>360,411</u>

TOTAL LIABILITIES AND FUND BALANCE

\$ 442,663

The accompanying notes are an integral part of these financial statements.

KELLOGG ARENA FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Amended Budget and Actual
For the Year Ended June 30, 2008

	Original / Amended Budget	Actual	Over (Under) Budget
Revenues			
Events	\$ 839,757	\$ 831,232	\$ (8,525)
Concessions	204,475	186,835	(17,640)
Novelty	66,540	16,333	(50,207)
Bar	95,500	93,500	(2,000)
Pro Shop	4,550	2,509	(2,041)
Other	36,661	31,735	(4,926)
	<hr/>	<hr/>	<hr/>
Total revenues	1,247,483	1,162,144	(85,339)
	<hr/>	<hr/>	<hr/>
Expenditures			
Operating	949,567	1,108,892	159,325
Building	354,382	391,101	36,719
Administrative	579,158	551,618	(27,540)
Reimbursements	(462,269)	(706,777)	(244,508)
	<hr/>	<hr/>	<hr/>
Total expenditures	1,420,838	1,344,834	(76,004)
	<hr/>	<hr/>	<hr/>
Revenues under expenditures	(173,355)	(182,690)	(9,335)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfer from the City of Battle Creek	-	25,000	25,000
Transfer from Battle Creek Downtown Development Authority	175,000	175,000	-
	<hr/>	<hr/>	<hr/>
Total other financing sources	175,000	200,000	25,000
	<hr/>	<hr/>	<hr/>
Net change in fund balance	1,645	17,310	15,665
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	343,101	343,101	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u><u>\$ 344,746</u></u>	<u><u>\$ 360,411</u></u>	<u><u>\$ 15,665</u></u>

The accompanying notes are an integral part of these financial statements.

KELLOGG ARENA FUND

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kellogg Arena Fund (the “Fund”), a special revenue fund of the City of Battle Creek, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the fund’s accounting policies are described below.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund of the City of Battle Creek, Michigan (the “City”) and are an integral part of that reporting entity. The Fund is not a component unit of the City or any other reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*.

The Fund is used to account for the activities of two City-owned public entertainment and recreation facilities: the Kellogg Arena and The Rink, which is an enclosed ice rink. Both facilities are managed and operated by the Cereal City Development Corporation (CCDC), a legally separate nonprofit organization, pursuant to an agreement with the City. CCDC is not a component unit of the City or any other reporting entity, as defined by GASB Statement No. 14, since it is not a unit or instrumentality of government.

Basis of Accounting – The City uses a special revenue fund (i.e., a separate accounting entity with a self-balancing set of accounts, using the modified-accrual basis of accounting and current financial resource measurement focus) to report the Fund’s financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

Deposits and Investments – The Fund’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

KELLOGG ARENA FUND

Notes to Financial Statements

Receivables - Receivables consist primarily of fees and other such charges for services to third parties that rent the facilities for conventions, meetings and other events and are reported net of amounts estimated to be uncollectible.

Inventories - Inventories are valued at cost using the first-in/first-out (FIFO) method.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Revenue Recognition - Revenues from certain facility activities are recognized at the time the related events occur. Accordingly, advanced ticket sales and deposits paid by customers prior to the date of event are reported as deferred revenues.

Compensated Absences – Employees are permitted to accumulate earned but unused vacation. A liability for the value of unused vacation is reported in governmental funds only if they have matured, for example, as a result of employee resignations or terminations.

Fund Equity - Reservations of fund balance represent amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

Budgetary Information - The Fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Fund follows the City budget process in establishing the budgetary data reflected in the financial statements:

- CCDC submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments, if any, were not material in relation to the original appropriations.

KELLOGG ARENA FUND

Notes to Financial Statements

2. DEPOSITS AND INVESTMENTS

Deposits – At year-end, the carrying amount of the Fund's deposits was \$220,021 (total cash and cash equivalents of \$217,120 plus \$2,901 of petty cash) and the bank balance was \$210,849. Of the bank balance, \$110,849 was uninsured and uncollateralized, and therefore exposed to custodial credit risk

3. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Fund carries commercial insurance. The Fund has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

4. DEFINED CONTRIBUTION PENSION PLAN

The Fund has a defined contribution pension plan covering substantially all full-time employees who have completed one year of employment. The employer reserves the right to amend or terminate the plan at any time. The Fund contributes 15% of participating employees' annual compensation to the plan. There is no employee contribution requirement. Employer contributions for the year ended June 30, 2008 were \$78,397.

5. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Fund were adopted on a fund level basis, although budget and actual information in the fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2008, the Fund did not incur expenditures in excess of the amounts appropriated at the legal level of budgetary control.

* * * * *

SUPPLEMENTAL SCHEDULE

KELLOGG ARENA FUND
Schedule of Revenues and Expenditures by Facility - Amended Budget and Actual
For the Year Ended June 30, 2008

	Kellogg Arena		
	Original / Amended Budget	Actual	Over (Under) Budget
Revenues			
Events	\$ 567,185	\$ 624,972	\$ 57,787
Concessions	174,875	173,711	(1,164)
Novelty	66,540	16,333	(50,207)
Bar	95,500	93,500	(2,000)
Pro Shop	-	-	-
Other	35,361	30,935	(4,426)
Total revenues	939,461	939,451	(10)
Expenditures			
Operating:			
Events	320,552	408,920	88,368
Concessions	78,148	80,379	2,231
Contract	453,024	574,244	121,220
Novelty	41,738	1,598	(40,140)
Bar	36,282	33,307	(2,975)
Pro Shop	-	-	-
Building	235,235	266,125	30,890
Administrative	410,751	302,511	(108,240)
Reimbursements	(462,269)	(588,143)	(125,874)
Total expenditures	1,113,461	1,078,941	(34,520)
Revenues (under) over expenditures	(174,000)	(139,490)	34,510
Other financing sources			
Transfer from City of Battle Creek	-	25,000	25,000
Transfer from Battle Creek Downtown Development Authority	175,000	175,000	-
Net change in fund balance	\$ 1,000	\$ 60,510	\$ 59,510

The Rink

Original / Amended Budget	Actual	Over (Under) Budget
\$ 272,572	\$ 206,260	\$ (66,312)
29,600	13,124	(16,476)
-	-	-
-	-	-
4,550	2,509	(2,041)
1,300	800	(500)
<u>308,022</u>	<u>222,693</u>	<u>(85,329)</u>
-	-	-
16,568	9,767	(6,801)
-	-	-
-	-	-
-	-	-
3,255	677	(2,578)
119,147	124,976	5,829
168,407	249,107	80,700
-	(118,634)	(118,634)
<u>307,377</u>	<u>265,893</u>	<u>(41,484)</u>
645	(43,200)	(43,845)
-	-	-
-	-	-
<u>\$ 645</u>	<u>\$ (43,200)</u>	<u>\$ (43,845)</u>



REHMANN ROBSON

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A member of THE REHMANN GROUP



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

December 10, 2008

To the Members of the City Council of the City
Of Battle Creek of the Kellogg Arena Fund
Cereal City - Kellogg Arena Fund

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Cereal City - Kellogg Arena Fund* (the "Arena") for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 20, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Arena. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 1, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Arena are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates for the year ended June 30, 2008.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Cereal City - Kellogg Arena Fund* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Cereal City - Kellogg Arena Fund

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Cereal City - Kellogg Arena Fund (the "Arena") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the 's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arena's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant Deficiencies

Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Cereal City - Kellogg Arena Fund

Comments and Recommendations

For the Year Ended June 30, 2008

Condition: As is the case with many smaller and medium-sized entities, the Arena has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Arena's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls. This is a repeat comment from the prior year.

Cause: This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Arena lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of
Responsible
Officials:**

Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Other Matters

Documentation. During our audit procedures it was noted that while the Arena does have proper segregation of duties in many areas, there was no evidence documenting who prepared certain documents and who reviewed them. To help ensure proper segregation of duties there should be evidence of a preparer and reviewer of any work papers or reconciliations completed.

* * * * *